CITY OF NESS CITY, KANSAS Ness City, Kansas

Financial Statements with Independent Auditors' Report

For the Year Ended December 31, 2006



Certifled Public Accountants

Terrance W. Brown
Kenneth L. Beran
Galen M. Pfelfer
Rex D. Ball
Nancy A. Francis
Kim H. Hullman
William D. Glazner
Sheryl K. Schamaun
Steven R. Baumrucker
Brian C. Staats
Tyler W. Miller
John E. Cross
Vaughn A. Goerl
Meilssa A. Romme
Michelle Schneider

James F. Adams.

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council Members City of Ness City, Kansas Ness City, Kansas 67560

We have audited the accompanying financial statements of the City of Ness City, Kansas, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the City of Ness City, Kansas', management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the **City of Ness City, Kansas** has prepared these financial statements using accounting practices prescribed or permitted by the State of Kansas which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Ness City, Kansas, as of December 31, 2006, or changes in financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of the **City of Ness City, Kansas**, as of December 31, 2006, their respective cash receipts and disbursements, and budgetary results for the year then ended, on the basis of accounting described in Note 1.

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ADAMS, BROWN, BERAN & BALL, CHTD.

Certified Public Accountants

August 6, 2007

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CITY OF NESS CITY, KANSAS Summary of Cash Receipts, Expenditures, and Unencumbered Cash For the Year Ended December 31, 2006

	Beginning Unencumbered	Prior Year Cancelled	Cash		Ending Unencumbered	Add Outstanding Encumbrances and Accounts	Ending
Fund	Cash Balance	Encumbrances	Receipts	Expenditures	Cash Balance	Payable	Cash Balance
Governmental Funds			1				1
General Fund	\$ 333,764	•	518,876	268,126	324,748	1	324,748
Special Revenue Funds	1			1			
Special Highway	44,006	1	38,766	77,346	5,426	•	5,426
Special Parks & Recreation	8,431	ı	36,685	40,660	4,456	•	4,456
Industrial Development	47,234	•	2,115	1	49,349	1	49,349
Library	1	ı	43,887	43,887	1	•	•
Library Employee Benefit	•	•	24,565	24,565	•	t	•
Capital Improvements	16,938	1	88,827	56,503	49,262	1	49,262
Equipment Reserve	54,959	1	92,099	103,335	43,723	•	43,723
Debt Service Fund					-		
Bond and Interest	7,998	t	3,362	11,360	•	ı	•
Capital Projects Fund							
Airport Improvements	47,589	•	84,173	37,951	93,811	1	93,811
Water improvement Project	2,336		376,454	377,028	1,762		1,762
Proprietary Fund					•		
Enterprise Funds							
Water Utility	639,734	1	442,187	373,932	402,989		686,707
Sewer Utility	75,799		116,864	70,262	122,401	•	122,401
Solid Waste Disposal	35,789	1	93,361	88,359	40,791	i	40,791
Total Primary Government	1,314,577	ı	1,962,221	1,833,080	1,443,718	•	1,443,718
							•
Component Unit					٠		
Ness City Public Library	32,068	1	89,543	81,178	40,433		40,433
Total Reporting Eptify	\$ 1.346.645		2.051.764	1.914.258	1,484,151	1	1,484,151
San Burney Const.							
					Compositi	Composition of Cash:	
						Checking Accounts	
				-	_	First State Bank	007,880 \$
					•	Savings Accounts First State Bank	2 503
					•	Tilbi Olala Dalih	4,000

The notes to the financial statements are an integral part of this statement.

751,465 1,443,718 40,433 1,484,151

Total Primary Government
Total Component Unit
Total Reporting Entity \$

Certificates of Deposit First State Bank

CITY OF NESS CITY, KANSAS
Summary of Expenditures - Actual and Budget
For the Year Ended December 31, 2006

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CITY OF NESS CITY, KANSAS General Fund

		•		Current Year	
		Prior Year			Variance Favorable
		Actual	Actual	Budget	(Unfavorable)
Cash Receipts			-		,
Taxes					(4.000)
Ad Valorem	\$	102,972	102,005	103,104	(1,099)
Delinquent		2,453	1,491	-	1,491
Motor Vehicle		33,477	32,300	34,312	(2,012)
Intangible		20,922	19,286	24,402	(5,116)
Total Taxes		159,824	155,082	161,818	(6,736)
Intergovernmental					
Local City Sales Tax		184,312	188,877	157,500	31,377
Local Alcoholic Liquor Tax		1,091	1,025	724	301
Connecting Links		5,120	5,124	3,400	1,724
State Aid		_	1,376	-	1,376
Total Intergovernmental	_	190,523	196,402	161,624	34,778
Licenses and Permits					
Franchise Fees		107,533	116,325	55,000	⁻ 61,325
Licenses and Permits		2,876	2,801	2,000	801
Total Licenses and Permits		110,409	119,126	57,000	62,126
Fines and Forfeitures					
Fines		7,939	9,621	4,000	5,621
Use of Money and Property		•			
Interest		12,728	15,636	12,000	3,636
Miscellaneous					
Swimming Pool		3,249	4,007	5,000	(993)
Recycling Revenue		5,557	5,142	1,000	4,142
Library Operating Reimbursement		5,000	2,500	2,500	-
Other		2,143	•	-	
Total Miscellaneous		15,949	11,649	8,500	3,149
Transfers In			11,360	9,630	1,730

General Fund

Statement of Cash Receipts and Expenditures - Actual and Budget For the Year Ended December 31, 2006 (With Comparative Totals for the Year Ended December 31, 2005)

			Current Year	
	Prior Year Actual	Actual	Budget	Variance Favorable (Unfavorable)
	Actual	Actual	Daugot	(Ollia Giasie)
Expenditures				
General and Administrative Personal Services \$	39,739	37,306	50,500	13,194
Personal Services \$ Contractual	30,318	29,407	36,500	7,093
	10,903	10,011	8,000	(2,011)
Commodities	162	895	6,000	5,105
Capital Outlay	500	503	500	(3)
Christmas Light Funding	81,622	78,122	101,500	23,378
Total General and Administrative	61,022	70,122	101,000	20,010
Police Department				•
Contractual	125,174	125,093	125,000	(93)
Street Department				
Personal Services	19,255	18,186	34,000	15,814
Contractual	13,504	6,118	13,000	6,882
Commodities	16,930	58,594	25,000	(33,594)
Capital Outlay	-	1,100	20,000	18,900
Total Street Department	49,689	83,998	92,000	8,002
Employee Benefits				
Contractual	_	, -	2,000	2,000
Health Insurance	25,301	26,606	31,200	4,594
	7,773	7,219	10,800	3,581
Social Security Workman's Compensation	4,606	5,156	7,000	1,844
KPERS	2,838	2,692	3,500	808
Unemployment	230	225	250	25
Total Employee Benefits	40,748	41,898	54,750	12,852
Fire Department	4.500	1,800	2,100	300
Personal Services	1,580	3,966	7,500	3,534
Contractual	2,563	•	1,500	(3,298)
Capital Outlay	2,989	4,798	11,100	536
Total Fire Department	7,132	10,564	11,100	
Street Lighting			60.000	
Contractual	29,906	29,975	30,000	25
-			414,350	44,700

CITY OF NESS CITY, KANSAS General Fund

			Current Year	
	Prior	· · · · · · · · · · · · · · · · · · ·		Variance
	Year			Favorable
	Actual	Actual	Budget	(Unfavorable
Total Expenditures Brought Forward	\$334,271_	369,650	414,350	44,700
Swimming Pool				
Personal Services	12,548	13,901	20,000	6,099
Contractual	2,884	2,926	5,000	2,074
Commodities	2,452	3,066	5,000	1,934
Capital Outlay	100	1,895		(1,895
Total Swimming Pool	17,984	21,788	30,000	8,212
Noxious Weeds				
Contractual	150	360	1,000	640
Commodifies	2,582	1,232	2,000	768
Total Noxious Weeds	2,732	1,592	3,000	1,408
Park Improvement				
Personal Services	5,279	5,437	6,000	56
Contractual	1,342	1,217	2,000	78
Commodities	2,562	3,863	5,000	1,13
Capital Outlay	2,002	•	2,000	2,00
Total Park Improvement	9,183	10,517	15,000	4,48
Beauting				
Recycling Personal Services	11,278	7,399	10,700	3,30
	766	3,948	1,000	(2,94
Contractual Commodities	1,940	2,548	1,300	(1,24
	1,040	_,-,-	1,000	1,00
Capital Outlay Total Recycling	13,984	13,895	14,000	10
Appropriations		•		
Airport	3,000	3,000	20,450	17,45
Transfers Out	107,451	107,450	90,000	(17,45
Total Expenditures	488,605	527,892	586,800	58,90
Receipts Over (Under) Expenditures	8,767	(9,016)		
Unencumbered Cash, January 1	324,997	333,764		
Unencumbered Cash, December 31	\$ 333,764	324,748		

Special Highway Fund

				Current Year	
	_	Prior Year Actual	Actual	Budget	Variance Favorable (Unfavorable)
Cash Receipts					
Intergovernmental State Gasoline Tax	\$_	40,331	38,766	41,860	(3,094)
Expenditures					
Personal Services		15,759	14,549	20,000	5,451
Contractual		-	13,643	13,000	(643)
Commodities		59,322	48,258	20,000	(28,258)
Capital Outlay		-		27,903	27,903
Health Insurance	_	4,381	896	7,000	6,104
Total Expenditures	_	79,462	77,346	87,903	10,557
Receipts Over (Under) Expenditures		(39,131)	(38,580)		
Unencumbered Cash, January 1	_	83,137	44,006		
Unencumbered Cash, December 31	\$	44,006	5,426		

CITY OF NESS CITY, KANSAS Special Parks and Recreation Fund

Statement of Cash Receipts and Expenditures - Actual and Budget For the Year Ended December 31, 2006 (With Comparative Totals for the Year Ended December 31, 2005)

				Current Year	
		Prior Year Actual	Actual	Budget	Variance Favorable (Unfavorable)
Cash Receipts Intergovernmental Local Alcoholic Liquor Tax	\$	1,091	1,025	724	301
Reimbursements	Ψ_		35,660		35,660
Total Cash Receipts	_	1,091	36,685	724	35,961
Expenditures Culture and Recreation (a) Budget Credit	_	-	40,660	8,384 35,660	(32,276) 35,660
Total Expenditures	_	-	40,660	44,044	3,384
Receipts Over (Under) Expenditures		1,091	(3,975)		
Unencumbered Cash, January 1		7,340	8,431		
Unencumbered Cash, December 31	\$ =	8,431	4,456		
(a) Budget Credit Excess Reimbursements Over Amour	nt Budç	geted \$	35,660		

Industrial Development Fund

				Current Year	
		Prior Year Actual	Actual	Budget	Variance Favorable (Unfavorable)
Cash Receipts	_				
Taxes Ad Valorem Delinquent Motor Vehicle Interest	\$	493 10 164 984	496 7 154 1,458	500 - 165 -	(4) 7 (11) 1,458
Total Cash Receipts		1,651	2,115	665	1,450
Expenditures Industrial Development		<u>-</u>		41,907	41,907
Receipts Over (Under) Expenditures		1,651	2,115		
Unencumbered Cash, January 1	_	45,583	47,234		
Unencumbered Cash, December 31	\$ _	47,234	49,349		

CITY OF NESS CITY, KANSAS Library Fund

			Current Year	
	Prior Year Actual	Actual	Budget	Variance Favorable (Unfavorable)
Cash Receipts				
Taxes Ad Valorem Delinguent	\$ 33,234 460	33,063 392	33,414 -	(351) 392
Motor Vehicle	10,395	10,432	11,075	(643)
Miscellaneous	31			
Total Cash Receipts	44,120	43,887	44,489	(602)
Expenditures Appropriations	 45,376	43,887	44,489	602
Receipts Over (Under) Expenditures	(1,256)	-		
Unencumbered Cash, January 1	 1,256			
Unencumbered Cash, December 31	\$ ·-			

CITY OF NESS CITY, KANSAS Library Employee Benefit Fund

				Current Year	
		Prior Year Actual	Actual	Budget	Variance Favorable (Unfavorable)
Cash Receipts					
Taxes					(000)
Ad Valorem	\$	17,133	18,962	19,164	(202)
Delinquent		242	209		209
Motor Vehicle		6,066	5,394	5,709	(315)
Total Cash Receipts		23,441	24,565	24,873	(308)
Expenditures					
Appropriations		23,991	-	-	-
Social Security		-	2,711	3,100	389
Unemployment Taxes		-	81	150	69
Health & Workman's Comp Insurance		-	20,112	19,992	(120)
KPERS			1,661	1,631	(30)
Total Expenditures		23,991	24,565	24,873	308
Receipts Over (Under) Expenditures		(550)	<u>.</u>		
Unencumbered Cash, January 1		550			
Unencumbered Cash, December 31	\$ _	· -			

Capital Improvements Fund

		Prior	Current
		Year	Year
	_	Actual	Actual
Cash Receipts	•		.'
Interest	\$	43	
State Aid		-	28,827
Transfers In	-	60,000	60,000
Total Cash Receipts		60,043	88,827
Expenditures Capital Outlay		110,225	56,503
Receipts Over (Under) Expenditures		(50,182)	32,324
Unencumbered Cash, January 1	-	67,120	16,938
Unencumbered Cash, December 31	\$:	16,938	49,262

Equipment Reserve Fund

		Prior Year Actual	Current Year Actual
Cash Receipts	\$	348	877
Interest	Ψ	J-40 -	61,222
Reimbursements Transfers In		30,000	30,000
Total Cash Receipts		30,348	92,099
Expenditures Capital Outlay	_	18,531	103,335
Receipts Over (Under) Expenditures		11,817	(11,236)
Unencumbered Cash, January 1		43,142	54,959
Unencumbered Cash, December 31	\$ _	54,959	43,723

Bond and Interest Fund

			Current Year	
	Prior Year Actual	Actual	Budget	Variance Favorable (Unfavorable)
Cash Receipts				
Taxes Ad Valorem \$	7,666	142	_	142
, 12 1 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2		688	_	688
Delinquent	541 129	000	-	000
Special Assessment		2 522	2 552	(21)
Motor Vehicle	8,271	2,532	2,553	(21)
Total Cash Receipts	16,607	3,362	2,553	809
Expenditures				
Principal	20,000	•	-	
interest	1,370	-	-	-
Commission Fees	4	-	-	-
Transfers Out	<u> </u>	11,360	9,630	(1,730)
Total Expenditures	21,374	11,360	9,630	(1,730)
Receipts Over (Under) Expenditures	(4,767)	(7,998)		
Unencumbered Cash, January 1	12,765	7,998		
Unencumbered Cash, December 31 \$	7,998			

Airport Improvements Fund

	_	Prior Year Actual	Current Year Actual
Cash Receipts	•	4.000	00
Local Sources	\$	1,839	88
Ness County Appropriations		30,000	30,000
Federal Aid		34,938	36,051
Interest		136	584
Transfers In	_	17,451	17,450
Total Cash Receipts		84,364	84,173
Expenditures Capital Outlay		36,776	37,951
Receipts Over (Under) Expenditures		47,588	46,222
Unencumbered Cash, January 1		1	47,589
Unencumbered Cash, December 31	\$ =	47,589	93,811

Water Improvement Project Fund

Statement of Cash Receipts and Expenditures - Actual For the Year Ended December 31, 2006

(With Comparative Totals for the Year Ended December 31, 2005)

	_	Prior Year Actual	Current Year Actual
Cash Receipts Federal Aid Revolving Loan Proceeds Transfers In	\$	102,234 67,157 11,877	117,100 245,928 13,426
Total Cash Receipts	_	181,268	376,454
Expenditures Capital Outlay	_	178,932	377,028
Receipts Over (Under) Expenditures		2,336	(574)
Unencumbered Cash, January 1			2,336
Unencumbered Cash, December 31	\$ _	2,336	1,762

CITY OF NESS CITY, KANSAS ... Water Utility Fund

Statement of Cash Receipts and Expenditures - Actual and Budget For the Year Ended December 31, 2006 (With Comparative Totals for the Year Ended December 31, 2005)

			Current Year	
	Prior Year Actual	Actual	Budget	Variance Favorable (Unfavorable)
Cash Receipts		000 004	244 500	40 204
Water Sales \$	393,860	389,884	341,500	48,384 35,899
State Aid	26,140	35,899	-	· · · · · · · · · · · · · · · · · · ·
Interest	11,287	14,302	6,000	8,302
Late Charges	2,065	2,102		2,102
Total Cash Receipts	433,352	442,187	347,500	94,687
Expenditures				
Production				
Personal Services	43,049	45,421	67,000	21,579
Contractual	29,672	23,619	30,000	6,381
Commodities	20,547	17,513	12,000	(5,513)
Easements	-	-	2,000	2,000
Capital Outlay	257	5,606	1,000	(4,606)
Total Production	93,525	92,159	112,000	19,841
Transmission and Distribution				
Contractual Services	175	48	4,000	3,952
Commodities	46,600	13,380	30,000	16,620
Capital Outlay	27,598	35,899	10,000	(25,899)
Total Transmission and Distribution	74,373	49,327	44,000	(5,327)
Commercial and General			•	
Personal Services	30,705	33,830	39,000	5,170
Contractual	13,947	15,678	25,000	9,322
Commodities	6,707	1,501	3,000	1,499
Capital Outlay	55_	11,111	5,000	(6,111)
Total Commercial and General	51,414	62,120_	72,000	9,880
Total Expenditures Carried Forward \$	219,312	203,606	228,000	24,394

Water Utility Fund

Statement of Cash Receipts and Expenditures - Actual and Budget For the Year Ended December 31, 2006 (With Comparative Totals for the Year Ended December 31, 2005)

			Current Year	
	Prior		Current rear	Variance
	Year			Favorable
	Actual	Actual	Budget	(Unfavorable)
			000 000	. 04.204
Total Expenditures Brought Forward	\$ 219,312	203,606	228,000	24,394
Employee Benefits				
Health Insurance	20,863	26,027	21,400	(4,627)
Social Security	5,516	5,838	6,500	662
Workmen's Compensation	1,383	973	2,200	1,227
KPERS	2,878	3,110_	3,500	390
Total Employee Benefits	30,640	35,948	33,600	(2,348)
Total Employer Establish				
Non - Operating Expenses				(4.004)
Sales Tax	6,667	4,234	3,000	(1,234)
Debt Service	112,312	112,475	112,475	757
Miscellaneous	4,190	4,243	5,000	757
Transfers Out	11,877	13,426		(13,426)
Total Non - Operating Expenses	135,046	134,378	120,475	(13,903)
Total Expenditures	384,998	373,932	382,075	8,143
Receipts Over (Under) Expenditures	48,354	68,255		
Unencumbered Cash, January 1	591,380	639,734		
Unencumbered Cash, December 31	\$ 639,734	707,989		

Sewer Utility Fund

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2006
(With Comparative Totals for the Year Ended December 31, 2005)

			Current Year	
	Prior			Variance
	Year		D	Favorable
	Actual	Actual	Budget	(Unfavorable)
Cash Receipts	40.000	07 101	52,000	35,184
C2W5, C3.176C 27.6.g	\$ 40,839	87,184 2,159	52,000	2,159
Interest	1,566	2,159 27,521	_	27,521
Commercial Utility	14,559	27,521		21,021
Total Cash Receipts	56,964	116,864	52,000	64,864
Expenditures		+		
Collection Maintenance				2.700
Personal Services	26,552	22,300	32,000	9,700
Contractual	3,277	8,284	5,000	(3,284)
Commodities	18,074	12,422	5,000	(7,422)
Capital Outlay	-	5,983	15,000	9,017
Employee Benefits	7,734	6,693	9,000	2,307
Total Collection Maintenance	55,637	55,682	66,000	10,318
Treatment				
Contractual	67	-	10,000	10,000
Commodities	3,252	4,370	2,000	(2,370)
Capital Outlay	<u> </u>		9,065	9,065
Total Treatment	3,319	4,370	21,065	16,695
General and Administrative	0.054	5,894	3,500	(2,394)
Contractual	3,854 16	766	0,000	(766)
Commodities	10	3,550	500	(3,050)
Capital Outlay		3,330		
Total General and Administrative	3,870	10,210	4,000	(6,210)
Total Expenditures	62,826	70,262	91,065	20,803
Receipts Over (Under) Expenditures	(5,862)	46,602	•	
Unencumbered Cash, January 1	81,661	75,799		
Unencumbered Cash, December 31	\$ 75,799	122,401		

CITY OF NESS CITY, KANSAS Solid Waste Disposal Fund

				Current Year	
		Prior Year Actual	Actual	Budget	Variance Favorable (Unfavorable)
Cash Receipts User Fees	\$	88,884	93,361	88,000	5,361
USEL LEES	*		<u> </u>		
Expenditures Contractual Commodities Capital Outlay (a) Budget Credit		83,939 699 1,148	88,224 - 135 -	84,000 4,000 - 5,361	(4,224) 4,000 (135) 5,361
Total Expenditures	_	85,786	88,359	93,361	5,002
Receipts Over (Under) Expenditures		3,098	5,002		
Unencumbered Cash, January 1		32,691	35,789		
Unencumbered Cash, December 31	\$ <u>_</u>	35,789	40,791		
(a) Budget Credit Excess User Fees Over Amount Budg	geted	\$	5,361		

Notes to Financial Statements December 31, 2006

1. Summary of Significant Accounting Policies

The City has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statements are presented to conform to the statutory basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The following is a summary of such significant policies:

A. Financial Reporting Entity

The City of Ness City, Kansas, was incorporated under the provisions of the State of Kansas. The governing body consists of an elected mayor and five elected council members. The City provides the following services: public safety (police and fire), streets, culture and recreation, public improvements, sanitation, water and electric utilities and general administrative services. Other services include support for library services and tourism.

The City receives funding from local, state, and federal governmental sources and must comply with the requirements of these funding sources.

The City of Ness City, Kansas is the primary government as defined in GASB #14 and further amended by GASB #39. The City Council is elected by the public. The Council has the authority to make decisions, levy taxes, influence operations and has the primary accountability in fiscal matters.

The following is a component unit of the City of Ness City, Kansas. The City exercises significant influence or accountability based primarily on operational or financial relationships with the City (as distinct from legal relationships).

Ness City Public Library

The Ness City Public Library is organized under Kansas Statutes for the purpose of operating a public library for the benefit of the **City of Ness City**. The Board's members are appointed by the City Council. The City substantially funds the Board's operations by levying tax dollars for the Library. The Board does not issue audited financial statements. Contact the City Clerk for information on how to obtain this financial information.

B. Basis of Presentation - Fund Accounting

The accounts of the City are organized and operated on the basis of funds. In governmental accounting, a fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The following categories of funds comprise the financial activities of the City for the year ended December 31, 2006:

Governmental Funds

<u>General Fund</u> – reports as the primary fund of the City. The fund is used to account for all financial resources not reported in other funds.

Notes to Financial Statements
December 31, 2006

B. Basis of Presentation – Fund Accounting (cont.)

Governmental Funds

<u>Special Revenue Funds</u> - To account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

<u>Debt Service Fund</u> - To account for the accumulation of resources for and the payment of interest and principal on general long-term debt and the financing of special assessments which are general obligations of the City.

<u>Capital Project Funds</u> - To account for financial resources segregated for the acquisition of major capital facilities (other than those financed by Enterprise Funds).

Proprietary Fund

<u>Enterprise Funds</u> - To account for operations that are financed and operated in a manner similar to private business enterprises where the stated intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the statutory basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

D. Departure from Generally Accepted Accounting Principles in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the year in accordance with generally accepted accounting principles. General capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

Notes to Financial Statements
December 31, 2006

E. Accounting for Capital Assets and Depreciation

The City does not maintain a record of capital assets used in performance of general government operations and the proprietary funds as required by generally accepted accounting principles.

F. Accounting for Long-Term Liabilities

The accounting and reporting treatment applied to the long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds and fiduciary funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Long-term liabilities expected to be financed from governmental funds are not accounted for in the governmental funds.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

G. Budgets

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

- 1. Preparation of the budget for the succeeding calendar year on or before August 1st.
- 2. Publication in local newspaper on or before August 5th of the proposed budget and notice of hearing on the budget.
- 3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
- 4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no budget amendments this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

Notes to Financial Statements December 31, 2006

G. Budgets (cont.)

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital project funds and the following special revenue funds:

Capital Improvements
Equipment Reserve

Spending in funds which are not subject to the legal annual operating budget requirement are controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

H. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is utilized in the governmental funds.

I. Deposits

The City follows the practice of pooling cash of all funds. Each fund's portion of total cash is summarized by fund type in the Summary of Cash Receipts, Cash Disbursements and Unencumbered Cash.

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. The City had no investments at December 31, 2006.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City did not use "peak periods" during 2006. All deposits were legally secured at December 31, 2006.

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Notes to Financial Statements
December 31, 2006

I. Deposits (cont.)

At December 31, 2006, the City's carrying amount of deposits was \$1,443,718 and the bank balance was \$1,510,722. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$101,764 was covered by federal depository insurance and \$1,408,958 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

J. Capital Projects

At year end, capital project authorizations with approved change orders compared with expenditures from inception are as follows:

	Project	Project	Unexpended
Project Name	Authorization	Expenditures	<u>Authorization</u>
Airport Improvements	\$ 2,735,481	89,255	2,646,226
Water System Improvements	1,550,000	530,658	1,019,342

K. Property Tax Calendar

Property taxes are collected and remitted to the City by the County Treasurer. Taxes levied annually on November 1st are due one-half by December 20th and one-half on May 10th. Major property tax payments are received January through July and are recognized as revenue in the year received.

L. Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as an expenditure during the year of purchase as required by state statutes.

M. Special Assessments

Projects financed in part by special assessments are financed through general obligation bonds of the City and are retired from the Bond and Interest Fund. Special assessments paid prior to the issuance of bonds are recorded as revenue in the appropriate project. Special assessments received after the issuance of bonds are recorded as revenue in the Bond and Interest Fund.

N. Compensated Absences

The City's policies regarding vacation time permit employees with up to ten years of service two weeks of vacation per year and those employees with more than ten years of service three weeks of vacation per year. Vacation pay is non-cumulative. Employees are permitted one day of sick leave per month. Sick leave is cumulative up to ninety total days. Both vacation and sick leave lapse upon termination of employment.

O. Defined Benefit Pension Plan

<u>Plan Description</u> - The City participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas Avenue, Suite 100; Topeka, KS 66603-3803) or by calling 1-888-275-5737.

CITY OF NESS CITY, KANSAS Notes to Financial Statements

	December 31, 2006
-	
	O. <u>Defined Benefit Pension Plan (cont.)</u>
	Funding Policy - K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for calendar year 2006 is 4.61% from January 1, 2006 through June 30, 2006 and 4.81% from July 1, 2006 through December 31, 2006. The City employer contributions to KPERS for the years ending December 31, 2006, 2005 and 2004 were \$8,514, \$8,230, and \$5,899, respectively, equal to the statutory required contributions for each year.
	P. Other Post Employment Benefits
	As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.
	Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the City for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program
2.	Long Term Debt
	The City has the following types of Long Term Debt:
	<u>Lease Obligations</u> The City has entered into lease agreements with an option to purchase at the expiration of the lease terms. The leases contain a fiscal funding clause.
	Revolving Loan The City entered into a \$1,150,000 revolving loan agreement on November 18, 2004 with the Kansas Department of Health and Environment acting on behalf of the State of Kansas to finance Public Water Supply System Project #2416. As of December 31, 2006, the City had issued \$313,086 of the total loan amount.
	Temporary Notes The City issued temporary notes pursuant to Kansas Statues for the financing of the 2002 Water Improvement Project.
	Changes in long-term liabilities for the City at December 31, 2006 and current maturities of long-term debt and interest for the next five years and in five year increments through maturity are included on the next two pages.

			CI Sched For the	CITY OF NESS CITY, KANSAS edule of Changes in Long Term I the Year Ended December 31, 2	CITY OF NESS CITY, KANSAS Schedule of Changes in Long Term Debt For the Year Ended December 31, 2006					
enssi	Interest	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
									r	
Temporary Notes Series 2002	4.48%	4/1/2002 \$	\$ 400,000	2/1/2006	110,000	1	(110,000)	(110,000)	•	2,475
Revolving Loan	3.31%	11/18/2004	1,150,000	2/1/2027	67,157	245,929	•	245,929	313,086	
Capital Lease JCB Wheel Loader	4.75%	5/15/2002	69,735	5/15/2007	23,429	((11,442)	(11,442)	11,987	1,113
Total Long Term Debt			\$ 1,619,735		200,586	245,929	(121,442)	124,487	325,073	3,588

]]	CITY OF NESS CITY, KANSAS Schedule of Maturity of Long Term Debt	CITY, KANSAS] **			! ! J	
				For the Year Ended December 31, 2006	December 31, 200					
					Year					
enssi	2007	2008	2009	2010	2011	2012 - 2016	2017 - 2021	2022 - 2026	2027	Totals
Principal Revolving Loan	\$ 14,940	11,095	11,456	11,848	12,244	67,628	79,691	93,907	10,267	313,086
Capital Lease JCB Wheel Loader	11,987	*	1			ı	t	1		11,987
Total Principal	26,927	11,095	11,466	11,848	12,244	67,628	79,691	93,907	10,267	325,073
Interest Revolving Loan	5,933	9,778	9,407	9,025	8,629	36,737	24,674	10,458	169	114,810
Capital Lease JCB Wheel Loader	569		·	1	1	4	1	•	1	569
Total Interest	6,502	9,778	9,407	9,025	8,629	36,737	24,674	10,458	169	115,379
Total Principal and Interest	\$ 33,429	20,873	20,873	20,873	20,873	104,365	104,365	104,365	10,436	440,452

Notes to Financial Statements December 31, 2006

3. Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis as authorized by Kansas Statutes. The City's operating transfers and statutory authority for December 31, 2006 were as follows:

From	То	Authority	 mount
General	Equipment Reserve	K.S.A. 12-1,117	\$ 30,000
General	Capital Improvements Airport Improvements	K.S.A. 12-1,118 K.S.A. 12-1,117	60,000 17,450
General Bond and Interest	General Fund	K.S.A. 79-2958	11,360
Water Utility	Water Improvement Project	K.S.A. 12-825d	\$ 13,426 132,236

4. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the statutory basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

5. Risk Management-Claims and Judgments

The City is exposed to various risks of loss related to torts; theft of; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has been able to obtain errors and omissions insurance at a cost it considered to be economically justifiable.

The City carries commercial insurance for all other risks of loss, including property, general liability, inland marine, crime, vehicle, and fidelity bond coverage.

The City has elected to obtain comprehensive and collision coverage on all City owned fire trucks and a 2002 Chevy $\frac{3}{4}$ ton truck. All other City owned motor vehicles carry liability insurance.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At December 31, 2006, the financial statements do not include liabilities for anticipated costs.

6. Litigation

The City is party to various legal proceedings such as foreclosure actions and tax appeals, which normally occur in governmental operations. The legal proceedings are not likely to have a material adverse impact on the funds of the City.

7. Grants and Shared Revenues

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations for the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the City, any liability for reimbursement, which may arise as the result of the audits, is not believed to be material.

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Notes to Financial Statements December 31, 2006

8. Comparative Data

Comparative data for the prior year has been presented in Statement 3 of the accompanying financial statements in order to provide an understanding of changes in the City's cash and unencumbered cash balances. However, complete comparative data (i.e., presentation of prior year totals in Statement 1) has not been presented since their inclusion would make certain statement unduly complex and difficult to read.